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SUBJECT: NIGERIA:ECONOMIC ROUNDUP CABLE

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SUBJECT: ECONOMIC ROUNDUP CABLE

¶1. This periodic U.S. Mission Economic Report includes:
-- Nigeria's Debt Management Office Ready to Sign Bilateral Paris Club Agreement
-- President Sponsors Bill to Give States Offshore Oil Revenue
-- Supplemental Budget Bill Has Little Chance of Passage
-- NITEL to Face Competition in Telecom Sector
-- Oil Workers Strike Causes Short-lived Gasoline Shortages
-- Nigeria Airways: Sold or Not Sold?

GON CLOSE TO SIGNING USG BILATERAL DEBT ACCORD

¶2. (SBU) According to Nigeria's Debt Management Office (DMO), the GON is close to signing the bilateral Paris Club debt accord with the USG. DMO Director General Akin Arikawe told Econoffs the agreement needed the approval of the Federal Executive Council (FEC), and predicted FEC assent by late October. Because Arikawe and many key players from the Central Bank and Ministry of Finance will be in Washington in early October, there may be an additional delay in finalizing the agreement. We think mid-November may be a more likely.time-frame for the signing ceremony.

PRESIDENT SPONSORS BILL TO GIVE STATES OFFSHORE OIL REVENUE

¶3. (U) In early September, President Obasanjo submitted a bill to the Senate (but not to the House of Representatives, according to the Speaker's office) defining the contiguous offshore zone of a state--for revenue sharing purposes--as part of that state. As such, offshore oil revenue would be calculated as part of the derivation fund (Ref B). In essence, the bill would restore the states bordering the Gulf of Guinea to the status quo prior to the April 5, 2002 Supreme Court ruling that offshore resources were not part of the territory of individual states. That decision took away the 13 percent of revenues that states with oil and gas facilities in adjacent water had been receiving.

¶4. (SBU) Comment: The new resource allocation bill has been depicted by the media as a conciliatory gesture toward the South-South to retain support for the executive in the upcoming elections. While the bill may have some support in the Senate, getting it through the House may be more arduous given the stronger opposition to Obasanjo in that Chamber. Another complication is that passage of the bill will require members from non-oil producing States to forego the additional revenue their states and the Federal Government gained at the expense of these maritime states. Prospects are further complicated by the nature of the legislative fix proposed. Many constitutional experts believe the two-paragraph proposal to redefine offshore production as onshore production would not pass court review. They argue that the Supreme Court has ruled definitively on the issue, and to change the effect of the ruling requires a constitutional amendment, with the requisite but unlikely approval of two-thirds of the State

legislatures. End comment.

SUPPLEMENTAL BUDGET: "A NON-ISSUE" FOR LEGISLATORS
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¶5. (U) On September 10, President Obasanjo submitted a 236 billion Naira (almost USD $2 billion) supplemental budget to the National Assembly. The budget included 21 billion Naira in spending on recurrent items, 92 billion Naira on capital projects and 124 billion Naira on external debt service.

¶6. (SBU) Introduced on the heels of impeachment charges tin the National Assembly based in part on the accusation that Obasanjo had failed to implement the 2002 budget, the supplemental budget has not been well received by lawmakers in Abuja. Several House members told Emboffs that the supplementary budget will not pass. One quipped, "It is a non-issue." He added that maybe one or two items might get through, particularly additional funding for the Independent National Electoral Commission (INEC), but that the rest are repackaged unimplemented items from previous budgets. Lawmakers also said that there was no need for a supplementary budget with the President due to present the 2003 budget to the National Assembly within a month. One noted that even if a supplemental budget were passed, they had little confidence that it would be implemented.

GON TO SELL TRACTOR, TRUCK, NEWSPRINT, AND SUGAR FIRMS
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¶7. (SBU) Despite the failure of core investors to raise needed funds for the privatization of NITEL in March 2002 and the shipbuilding company Nigerdock in August 2002, the Bureau of Public Enterprise (BPE) is moving forward with the sale of four more state-owned enterprises. The BPE has invited qualified core investors to bid on the 51 percent controlling interest in the Bauchi tractor and equipment manufacturer, Steyr Nigeria Limited; the Kano truck assembler, National Trucks Manufacturers Limited; the Savannah Sugar Company in Adamawa State; and the Nigerian Newsprint Manufacturing Company in Akwa Ibom State. The 49 percent balance of the government's equity in each firm is to be sold subsequently on the Nigerian Stock Exchange.

¶8. (SBU) BPE claims that National Trucks can produce 7,000 trucks and 3,000 tractors in a year and Steyr, 8,000 trucks, 2,000 tractors, and 500 generators. Savanah Sugar is reported to own 30,000 hectares of land (12,000 arable), with claimed output of 100,000 metric tons of sugar annually, while Nigerian Newsprint has capacity to produce 100,000 metric tons of newsprint per year. All four companies are in poor financial shape and have been operating at below their stated capacity for years.

¶9. (C) Comment: Little income is expected from the sale of these four firms. Nevertheless, their successful sale would be important for restoring political momentum for privatization after the NITEL and NigerDock sales fell through. End comment.

NITEL TO FACE COMPETITION IN TELECOM SECTOR

¶10. (U) On August 30, 2002, the Nigerian Communications Commission (NCC) approved Globalcom Limited's National Operator license to operate as a national carrier with digital mobile, international gateway, and fixed wireless services. Globalcom, a local firm headed by Lagos businessman Chief Mike Adenuga, was the only bidder out of four to pay the nonrefundable deposit of $20 million by the August 6 deadline. On August 12, Globalcom paid an additional $180 million to the NCC to meet the $200 million price of the license.

¶11. (SBU) Comment: Globalcom's entry into the telecommunications sector, especially after its much publicized exclusion from the GSM (cellular) market, should bring much-needed competition to NITEL. Competition has already brought price cuts in the

wireless sector. Prices remain high by international standards, however, not because the GSM tariffs are high - they in fact are below international averages - but because the interconnectivity charge with NITEL is six times the world average. This major problem demonstrates a need to strengthen the Nigerian Communications Commission (NCC) as an effective regulator capable of enforcing minimum standards of service - a point with which even some NITEL officials are privately in agreement. Meanwhile, the draft national telecommunications law, which would go a long way toward accomplishing this, languishes in the National Assembly. End comment.

OIL WORKERS STRIKE CAUSES SHORT-LIVED GASOLINE SHORTAGES
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12.(U) PENGASSAN, Nigeria's white collar oil and gas workers union, and the blue-collar Nigerian Union of Petroleum and Natural Gas Workers (NUPENG), held a one-day "warning strike" on September 23 to protest the planned privatization of the Nigerian National Petroleum Corporation (NNPC). Oil tanker drivers (affiliated with NUPENG) stopped transporting gasoline from September 20-23. The strike had been scheduled to last through Tuesday, September 24, but was called off a day earlier following the reported intervention of Minister of Employment and Productivity Alhaji Musa Gwadabe.

¶13. (U) In Lagos, most gasoline stations had sufficient reserves to continue pumping gasoline during the strike, though some refused to do so for fear of NUPENG reprisals. In other parts of Nigeria, the impact was more severe, some lines at the pumps reaching more than one kilometer. We have heard no report of violence associated with the strikes and, as of September 25, lines at fuelling stations were returning to normal.

NIGERIA AIRWAYS: SOLD OR NOT SOLD?

¶14. (SBU) The future of Nigeria Airways and its international routes remains unclear as newly-minted Air Nigeria failed to assume the New York-Lagos route on September 19 (reftel C). Minister of Aviation Kema Chikwe had announced sale of 49 percent of Nigeria Airways to London-based Airwing Aerospace Limited (AAL) provoking an angry reaction from the Bureau of Private Enterprises (BPE), which had plans to sell the heavily indebted company. What ensued was an acrimonious public exchange between the Minister and BPE Director General Nasir El-Rufai. The Presidency named a five-person committee headed by the Vice President to find a way for the two sides to reach a compromise.

¶15. (SBU) Comment: Minister Chikwe's AAL deal was unusual to say the least. The Ministry of Aviation, not the Federal Government of Nigeria, holds the controlling 51 percent of the new Air Nigeria. AAL is company with no known experience running an airline. AAL planned to begin Air Nigeria by contracting Singapore Airlines to handle New York-Lagos flights on a wet lease. As noted in reftel C, this would not have been possible on September 20 as contracted as neither AAL nor the Ministry of Aviation had taken necessary administrative steps for the new company to begin U.S. operations. Both Chikwe and El-Rufai reportedly got the word from Aso Rock to cool their rhetoric. The sale remains in limbo and may not be sorted out until after the elections.

JETER